

'Little book' makes economics accessible

"The Little Book of Economics: How the Economy Works in the Real World," by Greg Ip. Hoboken, N.J.: John Wiley & Sons, 2013. 258 pages, \$22.95.

"For most Americans, the economy is like the plumbing: something to ignore as long as it's working," Greg Ip writes near the beginning of "The Little Book of Economics: How the Economy Works in the Real World."

"In the last five years, it feels like every pipe in the house has burst," he continues. "Americans have endured a financial crisis, the worst recession and weakest recovery in memory, exploding government debt, and the threatened breakup of Europe's single currency."

"The Little Book of Economics" consists of 15 chapters, each of which can be read and thoroughly digested in 20 minutes or less. The book is not research-driven in the traditional sense. Instead, it is more of a handbook for the average citizen who wants to know more about economics but has minimal familiarity with the subject matter.

One of Ip's strengths is his ability to explain fairly complex concepts in a way that makes them accessible to almost anyone. For example, in Chapter 1, "The Secrets of Success," Ip clarifies why some countries are more fiscally robust than others: "Growth rests on two building blocks: population and productivity," he observes. "Population determines how many workers a country will have. Productivity, or output per worker, determines how much each worker earns."

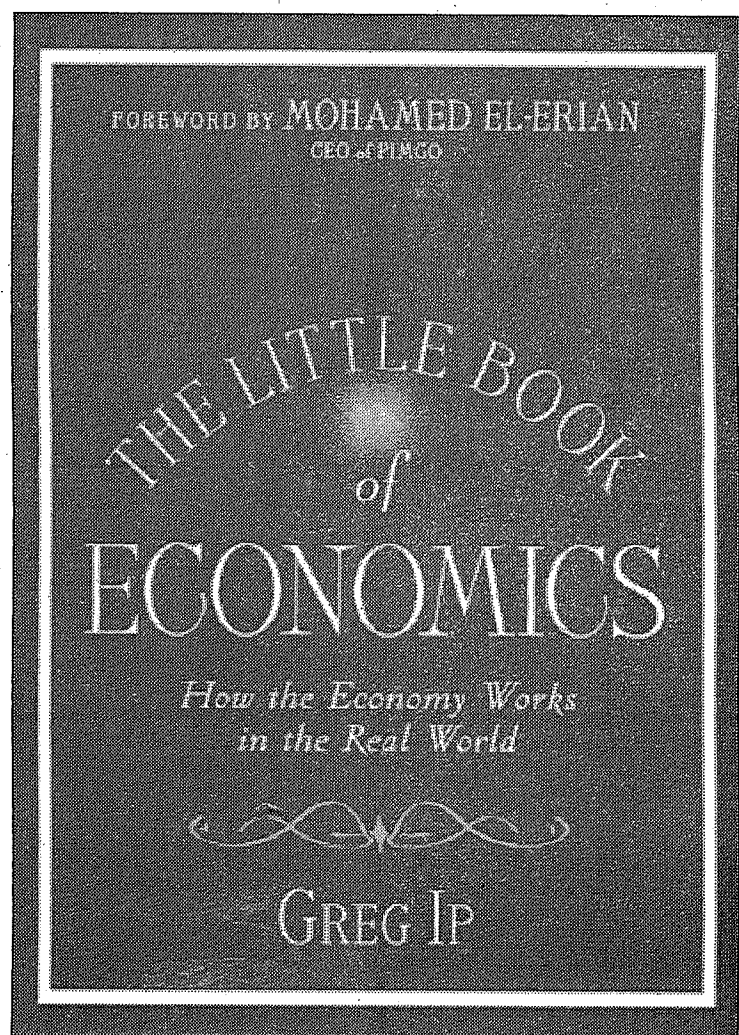
"The total output a country can

produce given its labor force and its productivity is called potential output, and the rate at which that capacity grows over time is potential growth," Ip notes. "So if the labor force grows 1 percent a year and its productivity by 1.5 percent, then potential growth is 2.5 percent. Thus, an economy grows."

Ip spent 11 years at the Wall Street Journal before assuming his current post as the U.S. economics editor for The Economist. Many readers will no doubt be familiar with Ip as he is a frequent contributor to National Public Radio, PBS, CNBC and MSNBC. He has degrees in journalism and economics from Carleton University in Ottawa, Canada, and has won several prestigious awards. There is little doubt in my mind that some will consider Ip's description of how economic forces shape the geopolitical landscape to be an oversimplification. And if you are used to reading complicated explanations of how this occurs, you will probably be disappointed with his literary style.

Personally, I find his approach to the material refreshing. Whereas many authors seem to revel in the assumption that only those with advanced degrees in economics can actually understand what is happening in the world, Ip is convinced that anyone possessing a fundamental familiarity with mathematics and a little common sense can come to understand even the most sophisticated financial processes and their consequences.

I found all 15 chapters to be surprisingly engaging. Ip's com-



prehensive grasp of economics and his gift for making the seemingly incomprehensible transparent is evident on almost every page. If pressed to identify my favorite chapters, one would no doubt be Chapter 8, "The Price of Economic Freedom." Here, the author provides a clear and concise account of the role that currency plays in the overall prosperity of nations: "Currencies obviously benefit from economies of scale: The more people that use the same currency, the better," Ip writes. "Imagine if each of the 50 American states used a different currency. Never mind the hassle of stopping at the foreign exchange booth every time you drove through the Lincoln Tunnel. Any transaction that crossed state lines, whether buying a house, taking a job, or signing a contract with a supplier, would carry a whole new element of risk."

Ip then builds on this basic foundation to enlighten his readers as to why the fate of the euro is inextricably linked to every other economy in the world – including the one most of us are primarily concerned about – the American system. The other chapter I found particularly thought-provoking was Chapter 13, "The Elephant in the Economy."

In this exceptionally well-crafted section, Ip deconstructs the role of the state in shaping economic reality. "The government makes its presence felt in the economy in multiple ways, but the most important and controversial is how it spends and taxes, collectively called fiscal policy," Ip explains. "As the contrasting experiences of Mr. Reagan and Mr. Bush show, Americans have come to love the benefits the federal government delivers.

"They just hate paying for

them," he adds, before going into a fairly concise yet remarkably detailed historical perspective outlining how we got into the current fiscal bind. Both Republicans as well as Democrats, it turns out, are responsible for the exploding debt our country must now find a viable way to contain and ultimately control.

One of the best explanations in the entire book, however, is found in Chapter 15, "Love-Hate Relationship." The chapter is appropriately subtitled, "The Bipolar Financial System – Essential for Economic Growth but Sometimes It Goes Nuts."

See if you can follow this: "Years ago you would put your money in a bank and the bank would grant a mortgage to your neighbor," Ip observes. "Now you put your money in a pension fund, which invests in a hedge fund, which buys a collateralized debt obligation, which holds a mortgage-backed security that a bank put together out of mortgages it acquired for a mortgage broker, who made the original loan to your neighbor." Ip then follows up with: "Did you get all that? Don't feel bad, neither did some of the world's most sophisticated investors."

If you want to better understand the current financial landscape on both a macrocosmic as well as a microcosmic level (see, I did read the book), but don't necessarily want to take the time to get a degree in economics, I recommend picking up a copy of "The Little Book of Economics." You won't be disappointed.

— Reviewed by Aaron W. Hughey, Department of Counseling and Student Affairs, Western Kentucky University.